Nova Scotia Alternative Provincial Budget 2001-2002

Cho!ces – Nova Scotia
CCPA-NS

Cho!ces Principles

Cho!ces - NS is a social justice coalition of community and labour organizations committed to the following principles:

Creating Employment

- That a commitment to full employment should underlie economic policy. Fostering the creation of jobs and the avoidance of job loss should be the number one economic concern of government, and reducing youth unemployment should be given special priority

Implementing Fair Taxes

- That there should be a more equitable distribution of income and wealth in Nova Scotia and Canada through a fairer tax system and greater policy attention to the eradication of poverty

Maintaining Public Services

- That public services including health, education, social services and other social programs play a crucial role in our society and need to be enhanced and accessible

Enabling Human Rights/Equity

- That there should be economic equality between women and men and equal treatment of all individuals and families including same sex and non-traditional families
- That the policies advocated for Nova Scotians shall not exploit or take advantage of those outside of our province or country

Ensuring Worker's Rights

- That the rights of all workers, within the collective bargaining and other statutory frameworks pertinent to employment, must be extended and strengthened in the private, public and voluntary sector

Protecting the Environment

- That greater priority must be given nationally and internationally to safeguarding and improving the environment

For more information about Cho!ces - NS please contact us:

Tel: (902) 454-6735
Fax: (902) 454-7671
Mailing Address: Suite 212, 3700 Kempt Road, Halifax, Nova Scotia B3K 4X8
The Alternative Provincial Budget can be downloaded at: www.policyalternatives.ca/ns

Contents

Preface

Government budgets are about choices between various public policy options. Budgets reflect a government's priorities in the allocation of public resources. The choices made should reflect the values and input of Nova Scotians. Unfortunately, all too often the public is left out of the process. Rather than justifying its decisions by the social, economic and environmental benefits of a particular policy, the provincial government has of late taken to claiming the fiscal situation leaves it with no alternative but to implement more cuts to programs and services.

In April of 2000 the Nova Scotia office of the Canadian Centre for Policy Alternatives (CCPA-NS) showed in its publication, "A Better Way," that the provincial government does have options. The analysis presents the root causes of Nova Scotia's fiscal problems and shows that the finances of the province can be managed in a fair and equitable manner that maintains services to citizens (see Appendix 1). This year Cho!ces - Nova Scotia and the CCPA-NS have taken the next step. Our Alternative Provincial Budget (APB) for 2001-2002 shows how the fiscal situation can be managed. It shows we can begin the process of re-investing, in an environmentally sustainable manner, in the programs and services essential to the social and economic development of Nova Scotia.

The APB demonstrates that even within the constraints of current economic realities, progressive, people-centred choices are available. With different priorities, progressive policies can be instituted by the government while still addressing the fiscal realities facing our province.

Alternative Budgets:

- Provide a means by which the people of Nova Scotia can have input into significant public policy decisions to ensure that the interests of the majority and those with less influence in our society are being served;
- Develop a consensus approach to budget-making among progressive organizations and individuals and provide a process for building links between various communities (e.g., labour, environment, aboriginal);
- Are documents that can be used to provide the public with choices and alternatives to those provided by the current government;
- Help to mobilize and educate members of the public on an economic policy agenda that promotes the interests of working people and the less affluent in society.

The Nova Scotia Alternative Budget for 2001-2002 has been prepared by Cho!ces - NS in collaboration with the Nova Scotia office of the Canadian Centre for Policy Alternatives.

Summary

As the release of the 2001-2002 Nova Scotia provincial budget approaches, it is once again clear that the government will rationalize its major policy "initiative" — cuts to programs and services — by the claim that there are no alternatives due to the province's "fiscal crisis." The Alternative Provincial Budget (APB) shows that the province does have options.

Nova Scotia is not in the midst of a fiscal crisis. Over the next year the province will receive $350 million more in revenue than estimated in its last budget (2000-2001). The additional revenue will come from increased federal Canadian Health and Social Transfer (CHST) and Equalization transfers totalling $158 million, and from increased tax revenue due to the growing economy. This is more than enough to cover the $260 million deficit, and increases in expenditure due to inflation, and leave the province with an estimated $61 million surplus. The provincial government's approach to budgeting appears to be to underestimate revenue and then to prescribe budget cuts to solve the resulting deficit. Rather than being in the midst of a fiscal crisis, the province's finances show signs of improvement.

Years of federal and provincial cuts and under-funding have left government programs unable to provide adequate and effective services and supports. The province must develop a long-term strategy that ensures on-going social investment in Nova Scotia's social and economic development.

This 2001-2002 APB addresses the short-and long-term needs and objectives of five government departments: Community Services, Education, Health, Economic Development and Environment. The 2001-2002 APB allocates an additional $45 million to Community Services, $45 million for Education, $45 million to Health, $7.5 million to Economic Development and $7.5 million to Environment. This APB provides for a total of $150 million in new spending as a first step in the process of reinvesting in our society.

A portion of the $150 million in new funding will be covered by the $61 million surplus, estimated by the APB. The APB would raise the additional funds from three sources.

The tobacco tax would be increased so that it generated the same share of revenue as it did in 1996-1997 — an extra $21 million would be generated. Twenty million dollars more is available through the decrease in the Manufacturing and Processing Investment tax credit already announced by the government. Finally, we would move to take a share of the income tax savings that will accrue to Nova Scotians as a result of the federal cuts in income tax, generating an extra $50 million. Nova Scotians would still experience an income tax reduction, but a smaller one than would otherwise be the case. This tax change would be structured so that families with low-incomes receive the full benefit of the federal tax reduction.

The maintenance of effective programs must be supported by sufficient revenue. Nova Scotia currently takes in less in own-source revenue (such as income and corporate taxes, and royalties) as a % of provincial

GDP than any other province. Uultimately in public services, as in much else, "you get what you pay for." Nova Scotians cannot expect in the long-run, to have education and health services comparable to elsewhere in Canada if they are unwilling to pay for them.

The tax cuts included in the provincial government's Fiscal Plan are ill conceived because they will take funds away from essential programs and social investments. Tax cuts burden Nova Scotians on low incomes as funds are taken from the services upon which they depend. Cuts to income tax tend to disproportionately benefit wealthy Nova Scotians. Is this the kind of Nova Scotia we want? Rather then contemplating tax cuts, the provincial government should be pursuing reforms that tax Nova Scotians according to their ability to pay.

Introduction

Provincial budgets must be based on an accurate assessment of the province's fiscal situation. Over the past decade governments in Canada have undermined the viability of public programs and services by their approach to fiscal management. Budgets have tended to underestimate revenue. If revenues are underestimated predictions of budget deficits will often be the result. We are then told that the "fiscal crisis" dictates that there is no alternative but to cut public services. The actual revenue figures, when they become available two years later, often show a different story — a surplus. Having already cut programs and services, rather than re-investing in services, the government allocates the surplus to tax cuts, just in time for the next election.

It is time to stop preparing estimates to justify further cuts. The province needs to start the process of re-investing in services that support Nova Scotians and provide the basis for equitable social and economic development. The province also needs policies that ensure sufficient revenue is generated to develop and sustain effective programs and services.

This document provides an alternative perspective on Nova Scotia's financial options. In the Alternative Provincial Budget (APB) we establish the province's real fiscal situation. We set priority areas for social investment and provide a budget that begins the long overdue process of re-investing in services and programs that Nova Scotians want and need. The APB also presents a long-term approach to fiscal management that addresses the need to raise adequate revenue to provide services.

Revenues

What is Nova Scotia's Real Fiscal Situation?

The provincial government's estimates do not reflect Nova Scotia's real fiscal situation (see Appendix 2, "What is the Real Fiscal Situation in Nova Scotia?"). The federal government projects equalization payments will increase $95 million over 2000-2001 levels to $1,375 million. The Canada Health and Social Transfer will increase $63 million to $586 million resulting in a total increase in transfers of $158 million.

Based on a consensus of the forecasts of the five major chartered banks, Informetrica forecasts the Nova Scotia economy will grow by 2.4 % in real terms in 2001, resulting in a 4.4% increase in GDP when inflation is taken into account. At this rate, revenue from income tax will increase by $109 million in 2001-2002. Other sources of revenue, such as sales tax, will also increase as the economy grows, resulting in an additional $83 million in revenue. Increased federal transfers and increased revenue resulting from a growing economy will result in a total of approximately $350 million in additional revenue in 2001-2002 over the province's 2000-2001 budget estimates (See Table 1). Total net expenses, however, will increase by $45 million if department budgets are increased to account for inflation. Rather than the projected deficit of $91 million as presented in the government's Fiscal Plan, the APB estimates that the overall provincial surplus will be $61 million. As shown below, the APB is not proposing that the government run a budget surplus given the pressing needs in many social programs in the province. The figures in Table 1 simply show the flexibility that exists: there are alternatives to the government's threatened budget cuts.

Generating Revenues

The APB has selected five departments for preliminary review: Community Services, Economic Development, Education, including Assistance to Universities, Environment and Health. Together these five departments absorbed 82% of the province's net program expenses in 2000-2001.

Our assessment of the fiscal situation identifies a potential surplus of $61 million for 2001-2002, based on reasonable assumptions about revenue, and increasing net program expenses by the expected rate of inflation. In the Cho!ces-NS discussions relating to priority issues in the five departments named, it became clear that the social investment needs of the province would require an injection of at least $150 million in 2001-2002.

Increasing Revenue

Three revenue sources can bring in an additional $90 million to add to the $61 million surplus. Increasing tobacco tax to generate the same share of revenue as in 1996-1997 would raise an extra $21 million.[1] The provincial government has already announced that it has reduced the tax credit for investments in manufacturing and processing. This reduction should result in increased tax revenue of about $20 million.[2] Finally, we would move to take 25% of the income tax savings that will accrue to Nova Scotians as a result of the federal cuts in income tax, generating an extra $50 million.[3] Nova Scotians would still experience a cut in their overall income tax deductions, but a smaller one than otherwise would be the case. Since the province has moved to set its own income tax rates independent of the federal government, it is possible to structure this tax change so that families on low incomes are not effected, and thus they would receive the full benefit of the federal reduction.

Table1

Summary of Budget Estimates (Figures in $ millions)	**Column 1 Provincial Budget Estimates 2000-2001**	**Column 2 Provincial Fiscal Plan Estimates 2001-2002**	**Column 3 Preliminary APB Estimates 2001-2002**	**Column 4 Column 3 minus Column 1**
Provincial own-source revenues	2,984		3,176	192
Federal transfers to Nova Scotia	1,811		1,969	158
Total Ordinary revenues	**4,795**	**4,859**	**5,145**	**350**
Total net program expenses	4,145	4,094	4,228	83
Debt servicing costs-net	899	861	861	-38
Total net expenses	**5,044**	**4,955**	**5,089**	**45**
Estimated surplus from above	-249	-96	56	
Financial and other adjustments	-18	6	6	
Overall provincial surplus	**-268**	**-91**	**61**	

Sources:
Column 1: “Nova Scotia Budget Address,” 2000-01, Schedule 10, p. A26
Column 2: “Nova Scotia Budget Address,” 2000-01, Schedule 15, p. A34
Column 3: “What is the Real Fiscal Situation in Nova Scotia?” CCPA-NS Appendix 1, and “Major Transfers to Provinces and Territories,” Federal Department of Finance.

Expenditures

Allocating Resources: Social Investments

The analysis by department has both a short-term and a long-term focus. To assist in thinking about the short term, the additional $150 million in resources is divided: $45 million is added to the budgets of each of Community Services, Education and Health, and $7.5 million (rounded to $8 million in the table) to each of Economic Development and Environment. Column 3 of table 2 shows the effect of adding these increased revenues to the departmental budgets of the five departments.

While it is convenient to think of government services within departmental frameworks, it is important to recognize the linkages that exist within the human condition that may be lost in a focus on departments. Since the Department of Health no longer promotes health through the active promotion of healthy diets, children may have less healthy diets than they should. Making sure that children whose families are in receipt of Family Benefits have an adequate diet will increase the effectiveness of education, and will reduce the costs of health care, even though the adequate diet is made possible by the Department of Community Services. The development of policies and allocation of resources must be based on a more integrated approach and an effective co-ordination of efforts between departments.

Community Services

"The mission of the Department of Community Services is to enhance the quality of life of communities of Nova Scotia by helping individuals, families and communities reach their potential."[4] The department has a budget close to $600 million and is responsible for a wide range of critical programs, including services under the Children and Family Services Act and Day Care Act, funding to transition houses and women's centres, and the Family Violence Prevention Initiative. It is also responsible for services such as income assistance, employment support and residential day program services for people in need. The department has a dramatic impact, for good or ill, on residents of Nova Scotia. For example, the department recently ruled that persons on Family Benefits could no longer attend university, a ruling that flies in the face of attempts by individuals to improve their employment prospects. Federal funding is available to support some of the initiatives of the department: recently $9 million was made available to support Early Childhood Development.

Among the many important services provided by Community Services, the three most in need of additional resources are social assistance, child care and housing. The long-term goals in these areas are to eliminate poverty, to provide universally affordable and quality child care, and to have adequate, affordable housing for all.

Table 2

APB Budget Estimates (Figures in $ million)	**Column 1** Provincial Fiscal Plan Estimates 2001-2002	**Column 2** Preliminary APB Estimates 2001-2002	**Column 3** Final APB Estimates 2001-2002	**Column 4** Column 3 minus Column 2
Personal income tax		1,254	1,304	50
Corporate income tax		169	189	20
Tobacco tax		84	105	21
All other provincial sources		1,669	1,669	0
Federal transfers		1,969	1,969	0
Total ordinary revenues	**4,859**	**5,145**	**5,236**	**91**
Community Services		588	633	45
Education		1,081	1,126	45
Health		1,720	1,765	45
Economic Development		50	58	8
Environment		13	21	8
All other departments		776	776	0
Debt servicing-net		861	861	0
Total net expenses	**4,955**	**5,089**	**5,242**	**152**
Estimated surplus from above	-96	56	-6	
Financial and other adjustments	6	6	6	
Overall provincial surplus	**-91**	**61**	**0**	

Totals may differ due to rounding

Source: Column 1, “Nova Scotia Budget Address,” 2000-01, Schedule 15, p. A34

In the short term, the extra $45 million that would be allocated to Community Services would be directed toward the following specific needs:

Social Assistance:

a) establish and maintain social assistance rates at adequate levels for all individuals and families to meet their "real" basic needs;
b) provide a phone as one of the real basic needs for individuals and families on social assistance; and
c) increase employment supports for individuals and families receiving social assistance — e.g., child care, education, transport, etc.

Child Care:

a) increase minimum child care salary to $24,000, at a cost of $5 million;
b) increase child care places above the additional 50 per year now planned; and
c) begin the expansion of child care beyond traditional hours.

Housing:

a) initiate urban and rural public housing developments in cooperation with the federal government, utilizing the federal funds that are available for urban projects.

Education

> A recent report to UNESCO, "Learning: the Treasure Within," highlights concerns in education and argues that equal attention in education should be paid to each of four identified pillars:
>
> 1) To Know: acquiring tools, exercising powers of memory and thought
> 2) To Do: putting knowledge to work
> 3) To Be: developing creativity, acting with personal responsibility
> 4) To Live Together: adopting another's perspectives, resolving conflicts.
>
> The Delores Report

"The Department of Education has a broad mandate that includes responsibility for education and training from primary through all post-secondary education."[5] Including post-secondary support, the department received a budget of approximately $1,075 million in 2000-2001.

Pressures on the education system are increasing with mounting expectations of the role of education in society, and uncertainty concerning the learning benefits of technological developments in information dissemination. Spending in Nova Scotia in public elementary and secondary schools, in current dollars per pupil, was the third lowest in Canada in 1999-2000,[6] only 85% of the Canadian average.

A majority of teachers feel that teaching space is inadequate, that the inclusion of students with diverse abilities / behaviours makes teaching more difficult without an appropriate increase in resources, and that neither students nor teachers have appropriate access to resources for the new curricula.[7] The recent Interim Report from the Special Education Policy Implementation Review committee notes that "17 percent of students in the public school system are receiving supports such as services from resource teachers, speech language pathologists, school psychologists and teacher assistants."[8] Its early findings include a need for adequate support to teachers to successfully implement the Special Education Policy of inclusion, calling for significantly increased resources.

Funding per student at the post-secondary level has traditionally been low in Nova Scotia, due in part to the large number of out-of-province students enrolled in provincial institutions. Inadequate funding has led to a very large increase in tuition levels, and to student debt loads that run to tens of thousands of dollars. There is, therefore, a critical need for funds to be directed toward post-secondary education.

In the short run, the $45 million in additional funding for education would be allocated as follows to begin to address the key issues:

a) A Royal Commission that would undertake a one to two year analysis of the requirements of the public education system in the province, with a total cost over the period of $4 million

b) Expenditure per pupil would be raised to match the national average, from $6,093 per pupil in Nova Scotia to $7,140, over a five year period, at an additional annual cost of about $30 million per year

c) Resources need to be made available to implement successfully the Special Education Policy of inclusion, as part of b) above

d) Provide $10 million in the coming year for grants to post-secondary students and add an additional $10 million in each of the following four years. In five years this would make available $50 million per year in grants to post-secondary students.

Health

The Department of Health has overall responsibility for the health care system and influencing policies to bring about improvements in health."[9] Some of the responsibilities for delivery of services are allocated to Regional Health Boards, District Health Authorities and other health care institutions. With a budget of $1,686 million in 2000-2001, this department is the largest in the province.

Nova Scotia's finance minister has recently sounded dire warnings that provincial health care spending is rising precipitously and has warned that the solution may have to be user fees, cutbacks and more private solutions. But the facts of health care spending are quite different. When we look at health care spending as a proportion of provincial gross domestic product (the best method of calculating our collective "ability to pay"), we see that health care spending has stabilized. Indeed, it is almost flat. Health care spending as a proportion of provincial revenues is rising because provincial revenues are decreasing as a proportion of GDP. In other words, the government's "take" of the economy is shrinking. What we have is not a crisis of spending but a crisis of revenue.

Health issues receive more public attention than any other, and yet people are confused both as to what are the real problems and what would be an effective set of solutions. Part of the difficulty comes from the fact that administrative questions relating to regionalization dominate the discussion, to the neglect of more fundamental health issues. Effective delivery of health programs requires a well trained work force working in modern facilities with up-to-date equipment, with individuals doing the task they were trained for rather than moving paper around. The appropriate person must deliver the appropriate care, e.g., nursing staff give routine needles, not physicians. Increased workloads in recent years are leading to stress and burn-out. A long-term strategy for health must be developed and implemented to develop and retain the staff required at all levels of a modern health care system.

The key point behind many of the current difficulties is the ineffective "restructuring" that has occurred in this sector. The net impact has been detrimental to the delivery of health care. It is important to ensure that the control and delivery of health services remain in the public sector. Nova Scotia should obtain an exemption from the application of the General Agreement on Trade in Services (GATS). In the short term, the $45 million available for additions to the health budget, along with the federal funds available for equipment, would be allocated to relieve shortages of staff, improve the conditions of employment, and provide additional support to under-funded health care facilities, including community health centres. Some savings would result from the elimination of the District Health Authorities, an unnecessary and expensive intermediary between the department and the community.

In the longer run, four fundamental reforms need to be implemented.

a) There must be much greater emphasis on "prevention" to reduce the demand for "treatment," both to save costs and, more important, to improve the health of Nova Scotians.

b) The fee for service method of payment for many health professionals must, in the interest of economy, be replaced by a salary-based approach to remuneration.

c) There needs to be a move away from prolonged hospital stays and toward home care, with adequate and trained public sector home care workers.

d) The province should work with the federal government to establish a number of new insured services at a national level, such as national home care, dental services and pharmacare.

Economic Development

The Department of Economic Development is "the key economic development contact within the provincial government for federal and municipal officials, as well as community groups involved in economic development."[10] Its current budget is about $50 million, a considerable drop from its actual expenditures in the last two years.

The long-term objective of the Department of Economic Development should be to provide support to sustainable development that generates well-paying and meaningful employment for all who seek work in Nova Scotia. There have been many false starts, and resources have been wasted.

In the short run, the department would use an infusion of an additional $7.5 million to reformulate its approach to resource development, information technology and organic agriculture, with emphasis on the following:

a) providing incentives for additional value-added in the province, e.g., in gypsum, which is now taken raw from Nova Scotia;

b) increasing royalty payments on the use of Nova Scotia's resources to meaningful levels;

c) providing incentives for small scale firms;

d) tightening up on incentives provided to call centres and similar businesses so that the emphasis is on full-time jobs, with penalty clauses for failure to meet conditions;

e) initiating provisions whereby the province achieves an equity position in companies where subsidized financing is provided;

f) developing a strategy that supports rural and urban centres through the provision of training and education that will achieve two purposes: provide the skilled personnel that industry needs and, perhaps more importantly, give people portable job and life skills that enhance their labour market and community-building potential;

g) ensuring that training incentives are not abused by fictitious "job creation;"

h) developing a policy with respect to organic farming that provides incentives to "green" farming and disincentives to the use of chemicals in farming.

Environment

"The Department of the Environment is responsible for the management, protection and promotion of a healthy environment."[11] Its budget is about $13 million.

The long-term objective of environmental regulation, management and enforcement is to produce healthy and sustainable places of work, institutions and residences throughout the province, along with protection for our natural environment. There are major environmental problems, from pollution of the air by industry and autos to the prevalence of underground sources of arsenic in well water. And there remains the Tar Ponds disgrace. The provincial government needs to develop and implement tough environmental standards and support the development of environmentally friendly initiatives such as public transportation.

Given the importance of environmental issues, the budget of the department would be increased by $7.5 million, or by more than 50%. The three areas identified for action in the short term are water and waste water, resources and sustainable development, and standards and enforcement.

a) It is important that water remain under public control and ownership, and that efforts to privatize the system, stemming from potential actions under the GATS, be resisted by the province. Clean, safe water should be treated as a human right, not a commodity. The control and elimination of industrial and residential waste continues to be a major deficiency in the province, as witness the situation in Halifax harbour after years of discussion. Public health and safety issues are paramount with water and waste water issues, and require even more stringent standards and enforcement, as recent events attest. Legislation, education, consultation and assessment form a package of actions on which immediate attention is necessary.

b) In the resources and sustainable development area, the province's forest resources are critical. Environmental impact assessments (EIAs) are an important tool to maintain our forests as a viable resource. (EIAs are an analytical tool to assist policy-makers to determine whether a particular project will have negative impacts on the environment.) EIA legislation and enforcement need to be updated, with meaningful practices and standards applied across the board. The maintenance of protected areas and public parks must be part of the forest agenda.

c) Standards and enforcement issues cut across the entire environmental spectrum. In general, the capacity of the department to develop, implement and enforce appropriate standards is being seriously eroded by staff cuts. More resources are needed in this area as a priority.

Sustaining Our Social Investments

The long-term economic prospects for Nova Scotia are good. However, the province must have a fiscal regime that enables government services to foster sustainable social and economic development. In this section we present principles for managing the provincial finances over the long-term.

Managing our Finances

Nova Scotia does not have a deficit crisis. Economic growth and federal transfers will generate sufficient revenues to balance the budget at current tax levels and levels of service. While the fiscal situation in Nova Scotia may be manageable at the present time, economic conditions can change rapidly. Should Nova Scotia come under financial pressure, the following principles should be followed to deal with the situation.

Deficit

A budget deficit must be dealt with prudently rather than succumbing to the sort of deficit hysteria that has characterized the approach of many governments. Any deficit should be dealt with in a way that does not increase the social deficit. Cuts to social expenditures hit families on low incomes the hardest. The cuts have life long impacts on children — it is false economy to solve a financial deficit at the expense of a growing social deficit. The long run prosperity of the economy depends on a healthy and well-educated population.

Debt

The debt to GDP ratio should not increase, but should begin to decrease through a combination of balanced budgets and economic growth. High debt servicing costs threaten the stability of social programs and other government expenditures by siphoning off funds to pay interest charges.

Taxation Reform

Changes to the tax structure should move toward a more progressive system in which those who can afford it pay a higher proportion of their income in taxes. While currently income tax is progressive in this sense, other taxes, such as the GST and profits from gambling, are not. The overall impact of this sort of tax structure is not progressive, but has been shown to be at best similar to a flat tax: rich and poor pay the same proportion of their income in tax but the poor pay a much higher portion of their disposable income.

Tax Cuts

Income tax cuts should not be considered until the social deficit has been eliminated and government services and industrial infrastructure, such as highways and ports, are adequate to support the social and economic development of Nova Scotia. The benefits of cuts in income tax rates accrue mostly to those who are well off, given the progressive nature of the income tax system. The proposed 10% tax cut in the fourth year of the government's mandate would cost more than $100 million in cuts to services. Tax cuts are not free. We pay for the cuts in loss of services (see Figure 1)

Figure 1

WANT A TAX BREAK? HERE'S WHAT WE *ALL* WOULD LOSE

Think you might like a tax break? Well, watch out. Even a small cut in taxes for an individual or family can mean loss of needed government programs and services that we all value.

The government of Nova Scotia is proposing to cut personal income taxes by 10% in 2003-2004. For a family with two children and earning an income of $30,000 that would mean a tax saving of something in the order of $200 a year. For a family with an income of $100,000 it would mean a tax savings of around $1,200 a year.

But that same tax cut in personal income taxes would mean a cut in provincial revenues of more than $100 million. What would we all lose if $100 million were cut? Take your pick:

Child Welfare and Residential Services	$1,000,300
Public Health Services Program	$19,329,000
Acute Care Eastern Region	$38,588,000
Addiction Services	$11,111,000
Children's Dental Program	$7,495,000
All Correctional Services	$20,639,000
Cancer Care Nova Scotia	$2,700,000
TOTAL	$100,862,300

Or

Early Intervention Program	$1,327,000
Acute Care Northern Region	$71,946,000
Public Housing Subsidies	$4,179,000
Rent Supplement Program	$1,168,000
Nova Scotia Legal Aid	$8,380,000
Museum of Natural History	$12,353,000
TOTAL	$99,353,000

Or we can take away big-ticket items, like:

66% of the long-term care program in health care	$100,089,300
or 60% of the total operating grants to universities	$99,991,400
or 100% of the Home Care Program	$91,725,000

Developing and Financing Effective Programs and Services

The APB presents a plan to start the process of re-investing in public services. In this section we look at how we can ensure the development and sustainability of effective programs and services over the long-term.

General Agreement on Trade in Services (GATS)

An important new factor on the provincial scene must be taken into account to ensure the maintenance of public services. Provisions may be made in the GATS that force Canada to allow foreign presence in areas such as health, education and cultural activities.[12] Nova Scotia has obtained an exemption under GATS with respect to "petroleum operations." Similar exemptions should be obtained for water distribution, health, education and other services supplied by government.

Reviewing Expenditures

On the expenditure side it is important that the province receive value for money. A review of government services with a view to assessing priorities and the effectiveness of programs, with strong public input, is urgently required. Unfortunately, such reviews have become associated with budget cutting exercises to balance the budget whatever the cost. It is time, however, to set up an ad hoc commission with broad public representation to examine these issues in the context of Nova Scotia's needs for the twenty-first century.

Revenue

On the revenue side, the province relies heavily on federal transfers, and will continue to do so for some time, despite the oil and gas royalties. The two key federal transfer programs, the Canada Health and Social Transfer and the Equalization program, will together generate about $70 million additional revenue for Nova Scotia each year for the period up to 2005-2006. Other federal programs will add to this total. The provincial government should continue to pressure Ottawa to provide a fair level of funding to the province. However, the province needs to put its own fiscal house in order to generate the financial resources required to meet its responsibilities.

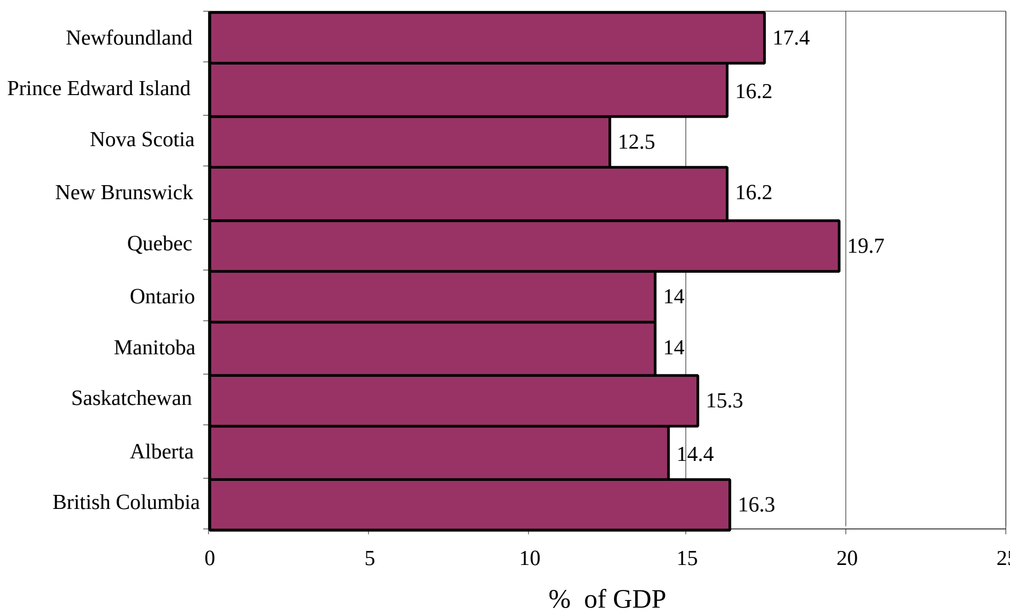
Nova Scotia's tax burden is not high compared to other provinces. Provincial own-source revenue as a percent of provincial GDP is considerably lower in Nova Scotia than in any other province (see Figure 2).[13] While these calculations are made difficult by differences across provinces in the funding of municipal government expenditures, there is no case for arguing that Nova Scotia is a high tax province.

There are a number of ways in which the province can increase its tax revenue. Recent changes in the way income tax is collected allow Nova Scotia to set its own tax rates on income, opening up the possibility of a more progressive structure than presently exists.

Corporate tax rates in the province could be increased without putting them out of line with neighbouring provinces. Specifically, the small business rate of 5% should be structured so that its applies only to legitimate small businesses.[14] Second, the Corporation Capital Tax is among the lowest in Canada and could be substantially increased. Third, there are a number of so-called "tax expenditures" that could be reduced to generate more tax revenue.

Resource rents and royalties present an almost untapped revenue source for the province. Apart from oil and gas, the province collects virtually no revenue from its resources in the form of rents. In future APBs we will explore these issues further as a means to raising government revenues.

Figure 2:
Provincial Own-Source Revenues as % of Provincial GDP



Source: Informetrica, Provincial Budget Assessments, 1999

Progressive Taxation

Taxes are the price we pay for living in a civil society. We often take government services for granted and forget that they have a cost. Taxation allows society to enjoy the benefits of the effective and equitable provision of essential public goods. Taxation is an essential ingredient in the creation and development of a fair, prosperous and sustainable society.

Governments raise revenue by taxing economic activity and wealth accumulation: there are taxes on income (personal and corporate), wealth (e.g., property, capital) and consumption (e.g., sales, tobacco, gambling). Governments also raise money by charging private companies rent on the use and exploitation of our natural resources. Sometimes called royalties, they are levied on oil, gas and other resources.

Adam Smith, the founder of modern economics, and inaccurately lauded as an opponent of government, had this to say about taxes: “The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state ... a goal of taxation should be to remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.”[15] Since Smith’s day, a key concept in fair revenue generation has been “progressivity” i.e., those who are able to pay more should pay more than those who are less able to pay — as the benefits one receives from economic activity rise, the percentage of those benefits paid in taxes should rise. Figure 3 shows a progressive tax and Figure 4 shows a regressive tax.

Figure 3: Progressive Taxation

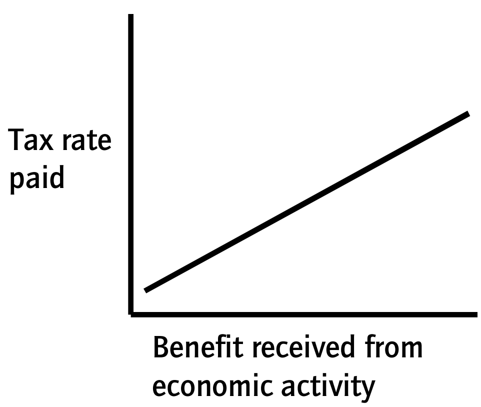
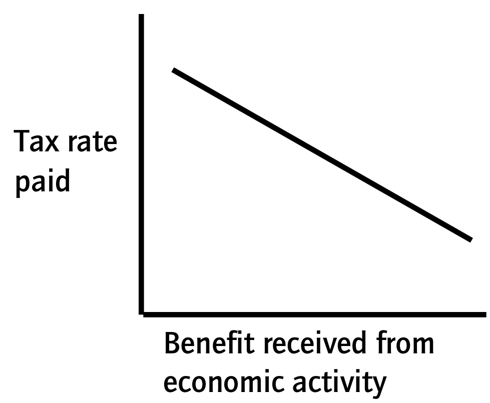


Figure 4: Regressive Taxation



We are not taxed too heavily in Nova Scotia considering the real needs of the province and its people and the provinces capacity to tax (see Figure 2). Given the cuts in social programs and infrastructure over the past several years, moves to reduce overall taxes sell the province short. Providing overall tax relief now may well make it more difficult to build the economy and take care of our people in the future, especially if the national and provincial economies take a downturn. But the wealthy and the corporations are exerting pressure on the Nova Scotia government to give tax breaks to the wealthy and to corporations.

While we argue that overall taxation should not be reduced, the APB’s main revenue generation thrust advocates reducing the proportion of Nova Scotia’s revenue generated from regressive taxes and increasing revenue generated by progressive taxes. Under our proposals, low-and middle-income people would pay less and higher-income people would pay more. The province should move away from regressive taxes such as consumption taxes and gambling.

Consumption taxes

Consumption taxes are usually a straight percentage of the cost of the item consumed e.g., the HST is 15% of the cost of any item purchased. Generally, while the richer consume more than the poorer and thus pay more consumption tax in absolute terms, as a percentage of income, the tax tends to decline somewhat as income increases. Moreover, if the tax is levied on something that the poorer consume more of than the richer, then the regressivity of that tax is much greater.

Gambling — A Tax by Any Other Name

Gambling is a consumption tax and it is the most regressive tax there is. It is an extremely profitable activity for both private and public providers, and it collects a much greater proportion of income from the poor than the rich. A U.S. study reported that people on low incomes spent four times as much, on a percentage basis, on gambling than people on high incomes.[16]

Nova Scotia is becoming increasingly dependent on gaming corporation profits. In 2000-2001 gambling contributed 5.9% of revenues raised by the province from its own sources. This is a higher share than most other provinces.

User Fees

User fees are becoming more common and, as the Auditor General has noted, they can merge into a form of taxation. They are regressive and unfair: the same fee is charged whether one is rich or poor. User fees also prevent people on low incomes from using a service. This in turn may have long-term implications and costs. For example, user fees may keep someone from seeking preventive health care.

Moving Forward

The 2001-2002 Alternative Provincial Budget challenges the provincial government's assertion that budget cuts are the only way of addressing the province's fiscal situation. A long-term strategy is needed that balances the province's fiscal viability with the need for social investment. The APB shows how we can deal with the province's fiscal challenges and address the social deficit created by years of cuts.

The APB 2001-2002 is part of a long-term project that seeks to ensure that social and economic matters are balanced in the development of provincial budgets. It also provides opportunities for Nova Scotians to engage in the development of budgets. To this end, this budget marks an important step in the process of engaging more Nova Scotians in informed public policy debate and choices.

Appendix 1

Nova Scotia's Fiscal Problems: Causes and Solutions

In April 2000, CCPA-NS released, *A Better Way: Putting the Nova Scotia Deficit in Perspective.* One of the paper's conclusions was that a solution to the province's fiscal problems requires an appreciation of the root causes of the problem.

Causes of Nova Scotia's Fiscal Problems

Program spending in Nova Scotia is consistently among the lowest in Canada on a per capita basis, and cannot account for the fiscal problems. When one looks at per capita spending on health, on education, or on social services, the story is the same: Nova Scotia spends less than other provinces, not more. On the revenue side, the province relies heavily on personal income taxes, the HST and federal transfers.

The province's problems stem from the slow growth of the provincial economy. This is the result of ongoing regional disparities within Canada that characterize the Atlantic regional economy. Other key factors in generating Nova Scotia's fiscal problems in the 1990s were the high interest rate policies of the Bank of Canada, and federal government cutbacks to a wide range of programs. Nova Scotia, with 3% of Canada's population, received 16% of the cuts to federal spending between 1993 and 1996. This contributed to a slowdown in the provincial economy.

A Balanced Approach

Government policy in the mid-1990s, in the face of fiscal pressures, was to cut: to cut programs, service delivery and jobs, damaging social programs and the economy as a whole. "A better way" is to balance the "government's need to provide services for our collective good and the need for long-term fiscal sustainability." The main conclusion of *A Better Way*, one that remains valid, is that there are alternatives to program cuts. Cuts to programs hurt most those most reliant upon government services. Cuts have long-term implications for the health, education and security of the citizens of Nova Scotia, and therefore for the future welfare and prosperity of the province.

Appendix 2

CCPA-NS Economic Briefing Paper: What is the Real Fiscal Situation in Nova Scotia?

Nova Scotians are being threatened with another round of budget cuts. Premier John Hamm has claimed, "over the next two years, we need to find another $260 million to get rid of that deficit altogether....It's going to be tough." Not content with previous cuts, the Halifax Chamber of Commerce recently urged the premier to cut deeper and faster.

Is this necessary? In this brief CCPA-NS shows that, rather than cutting budgets, Nova Scotia can now start providing much needed investments in services. Increased revenues due to economic growth and increased federal transfers will eliminate the deficit.

Revenue Increases for 2001-2002

Increased revenue in 2001-2002 from federal transfers and from provincial taxes can balance the province's books. The federal government projects equalization payments will increase $95 million over 2000-2001 levels to $1,375 million.[17] Canada Health and Social Transfer will increase $63 million to $586 million resulting in a total increase in transfers of $158 million.

Based on a consensus of the forecasts of the five major chartered banks, Informetrica has forecast that the Nova Scotia economy will grow by 2.4 % in real terms in 2001, resulting in a 4.4% increase in GDP when inflation is taken into account. If the provincial economy grows at this rate, revenue from income tax will increase by $109 million in 2001-2002. Other sources of revenue, such as sales tax, will also increase as the economy grows resulting in an additional $83 million in revenue.

Adding these increases in revenue together, one can expect Nova Scotia's revenues to increase by over $350 million in 2001-2002 alone, more than enough to eliminate the deficit.

How Big is the Deficit for 2000-2001?

The provincial government has been using a number of figures in preparation for its 2001 budget. Table 3 presents the provincial government's numbers and the CCPA-NS estimates. The Budget Estimates (April 2000) show that the government estimated that the province would run a deficit of $268 million in 2000-2001.[18] The province's most recent "Year End Forecast Update" (December 2000) shows an $8 million decrease in the deficit. The Update estimates revenues in 2000-2001 to be $4,900 million, $105 million above the initial Budget estimates.[19]

The increase in estimated revenue was almost entirely offset by increases in net expenses totalling $97 million.[20] The net result was a new estimated overall provincial deficit of $260 million, the figure the premier is now using as he prepares Nova Scotians for the 2001 budget.

Options for the 2001-2002 Budget

Estimates in the provincial government's "Fiscal Plan" for 2001-2002 (April 2000; column 3 of table) exemplify the government's approach to budgeting — revenues are un-

Table 3

Budget Estimates Provincial Government and CCPA-NS (Figures in $ millions)				
	Column 1	**Column 2**	**Column 3**	**Column 4**
	Provincial Budget Estimates 2000-2001	**Provincial Mid-year Revisions 2000-2001**	**Provincial Fiscal Plan Estimates 2001-2002**	**CCPA-NS Estimates 2001-2002**
Personal income tax	1,145	1,173		1,254
Corporate income tax	162	162		169
Harmonized sales tax	786	795		821
Tobacco tax	80	80		84
Motive fuel taxes	232	220		242
Gaming corporation profits	175	175		183
Liquor commission profits	141	141		147
Interest revenues	36	36		36
Registry of motor vehicles	61	61		64
Royalties-petroleum	6	9		9
Other provincial sources	160	160		167
Adjustments-provincial		45		
Equalization	1,280	1,309		1,375
Canada health and social transfer	523	526		586
Other federal sources	8	8		8
Total ordinary revenues	**4,795**	**4,900**	**4,859**	**5,145**
Total net program expenses	4,146	4,181	4,094	4,228
Debt servicing costs-net	899	909	861	861
Total net expenses	5,045	5,090	4,955	5,089
Estimated surplus from above	-250	-190	-96	56
Financial and other adjustments	-18	-70	6	6
Overall Provincial Surplus	**-268**	**-260**	**-91**	**61**

Sources:
Column 1, "Nova Scotia Budget Address," 2000-01, Schedule 10 p. A26
Column 2, "Year End Forecast Update" Nova Scotia Department of Finance, December, 14, 2000
Column 3, "Nova Scotia Budget Address," 2000-01, Schedule 15, p. A34
Column 4, CCPA-NS and "Major Transfers to Provinces and Territories," Federal Department of Finance.

derestimated and budget cuts are prescribed to solve the resulting deficit.[21] Total ordinary revenue for 2001-2002 was estimated at $4,859 million, an increase of only 1.3 % which is even below the mid-year estimate for 2000-2001. In the Fiscal Plan total program expenses at $4,094 million are 1.2% below the 2000-2001 Budget estimates. The overall provincial deficit estimated in the fiscal plan for 2001-2002, is $91 million.

Balancing the Books and Improving Services

The estimates prepared by the Canadian Centre of Policy Alternatives - Nova Scotia for 2001-2002 (column 4) show a radically different bottom line, one that balances the books and improves services with a surplus of $61 million. (As will be seen below, the CCPA-NS is not proposing that the government run a budget surplus, given the pressing needs in many social programs in the province.)

The estimates for revenue are based on 2.4% real GDP growth and 2% inflation for 2001-2002.[22] Equalization transfers to Nova Scotia will increase by $95 million to $1,375 million in 2001-2002, and Canada Health and Social Transfer payments from the federal government will increase by $63 million to $586 million.

The net program expenses in column 4 were calculated by adjusting the Budget estimates for 2000-2001 by the expected rate of inflation of 2%. Net debt servicing costs are as estimated in the province's Budget. These calculations show that the province, without changing its tax policy, and without reducing departmental budgets, can eliminate its $260 million deficit in one year, and still have resources to devote to priority needs in the province. These calculations do not take account of a possible one-time addition to revenue of $140 million, and annual savings in interest rates of $25 million per year, resulting from the sale of Nova Scotia Resources Limited, reported recently. Nor do they factor in other revenue enhancing options, such as the possible increase in tobacco taxes mooted by the premier.

On the other side of the ledger, the estimates in column 4 are based on projections of economic growth in Nova Scotia that may prove optimistic in the light of current concerns about the performance of the economy. Two points are relevant. First, many commentators are predicting an economic slow down for Canada, but significant economic growth is still present in their forecasts for 2001. Second, if growth in Nova Scotia in 2001 turns out to be a full 1% less than projected, the revenue estimates in column 4 would be reduced in the order of $30 million, certainly significant but not enough to generate a deficit.

Managing the Debt

The current ratio of debt to GDP is high, and can be reduced. When the budget is balanced, the level of the debt remains constant.[23] If the budget is balanced over a number of years, the burden of the debt will fall in relative terms as provincial GDP rises. This effect can be quite pronounced over time. At present, the debt is about $11 billion, and GDP in Nova Scotia $22 billion, for a ratio of 50%. If the debt remains constant for four years and the economy increases by 5% (nominal GDP), a year over this period, the debt to GDP ratio will fall to 41%. Similarly, the proportion of provincial revenue devoted to servicing the debt will fall.

Conclusion

The purpose of this paper is to put the budget discussion on a factual basis, starting with a status quo surplus. The government can, and should, begin to meet the most pressing needs in health, education, community services, and elsewhere. These needs have been generated by cutbacks, by a growing population, and in the health sector by some technological changes that improve service but also tend to increase costs. There is also a need to invest in areas that will save resources in the long run, such as attention to the needs of children living in poverty, better home care health services, and improved environmental enforcement.

Notes

1 In 1996-1997, the tobacco tax of $86 million generated 3.3% of own-source provincial revenues of $2,602 million. The proposed tobacco tax of $120 million in 2001-2002 would equal 3.2% of own-source provincial revenue of $3,267 million.

2 Tax expenditures arise when a firm, for whatever reason, pays a lesser amount in tax than it would if the actual tax rate were applied. The Manufacturing and Processing Investment Tax Credit has already been reduced from 30% to 15% on new projects as of January 1, 2001(see "Budget Bulletin Tax Credit Review," Nova Scotia Department of Finance, Halifax: April 11, 2000). The net effect of this should be approximately $20 million in fiscal year 2001-2002, since the average cost to the province of this tax credit has been up to $61 million per year in recent years.

3 The federal tax cut is in the order of $7 billion, based on the federal Minister of Finance's October Statement on Finances 2000. Nova Scotia has about 3% of the Canadian population, so on an equal per capita basis, the tax savings to Nova Scotians will equal about $200 million. The $50 million generated is thus about 25% of the federal cut.

4 Estimates: Province of Nova Scotia, 2000-2001.

5 Ibid.

6 Canadian Teachers' Federation, Economic Service Notes, Sept. 2000.

7 Survey of teachers by the NSTU , 2000.

8 From "Special Education Policy Implementation Review: Interim Report", Prepared for Honourable Jane Purves, Minister of Education, December, 2000.

9 Estimates, Province of Nova Scotia, 2000-2001.

10 Ibid.

11 Ibid.

12 GATS is a trade agreement signed by Canada and many other nations. It comes under the umbrella of the World Trade Organization, and is designed to open up service sector markets to foreign competition. "Services" include a vast array of industries, including banking, education, health, accounting, etc. For a recent discussion, see

Scott Sinclair. 2000. "GATS: How the World Trade Organization's new 'services' negotiations threaten democracy," Canadian Centre for Policy Alternatives.

13 Informetrica, Provincial Budget Assessments, 1999.

14 The lower rate is not limited to small business. It is available on the first $200,000 of taxable active business income to all Canadian controlled private corporations.

15 Smith, Adam. 1991. The Wealth of Nations. New York, Prometheus Books

16 Robert Goodman. 1994. "Legalized Gambling as a Strategy for Economic Development." Northampton, MA: p. 5, as cited by Erika Simon in Insight.

17 These estimates of federal transfers are from the Federal Department of Finance document "Major Federal Transfers to Provinces and Territories 2000-2001 to 2004-2005" (web page: http://www.fin.gc.ca/FEDPROVE/mtpe.html).

18 Budget Estimates, 2000-2001, is taken from the "Budget Address, Province of Nova Scotia for the fiscal year 2000-01," Nova Scotia House of Assembly, April 11, 2000. This key document will be referred to simply as the Budget.

19 Personal income tax receipts increased $28 million. An adjustment arising from prior year activity added $45 million, and federal equalization payments increased $29 million.

20 Program expenses increased by $13 million, while debt servicing costs ($10 million), health and hospital boards ($35 million) and Nova Scotia Resources Limited (projected deficit up by $15 million from $26 million to $41 million) contributed to a total increase of $97 million.

21 The numbers can be found the 2000-2001 Budget Address on page A34 presenting the provinces "Fiscal Plan." They are not broken down in the "Fiscal Plan" by source of revenue or by department.

22 Most of the revenue figures in column 4 were calculated by increasing the Budget figures for 2000-2001 by 4.4 % (2.4% real GDP growth and 2% inflation). There is one significant exception to this calculation. Personal income tax was increased by a higher percentage to take account of the fact that the Budget showed virtually no increase in personal income tax receipts between 1999-2000 and 2000-2001, despite rapid growth in the province. The calculation for income tax revenue therefore starts with the government's 1999-2000 forecast $1,145 million ("Budget Address 2000-01") and uses a real growth rate of 3.1% plus 2% inflation for 2000-2001 and the 4.4% for 2001-2002. In the province's estimates this factor is probably reflected in the Provincial Adjustment of $45 million in column 2.

23 Recent changes to the accounting procedures used with respect to provincial finances, which in themselves are a welcome addition to transparency in the provincial budgets, have led to a situation in which the change in the provincial debt need not equal the overall provincial surplus. This results from the treatment of tangible capital assets, but is ignored in this discussion.